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INDUSTRIAL REDEPLOYMENT BY THE NORTH AND DEVELOPMENT OF THE SOUTH *

by

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INTRODUCTION

The subject of industrial redeployment has in recent years received considerable attention in international economic analyses. UNIDO has recognized the importance of the subject and rather broadly defined its meaning. It would be useful however to consider the implications of this concept.

Two aspects seem to emerge. Industrial redeployment represents one of the forms of industrial policy that may be adopted by industrialized countries with a view to improving the medium- and long-term efficiency of their industrial apparatus. The objective of such policies is to organize the transfer of industrial workers towards sectors with a more promising future. Redeployment policies may therefore be distinguished from so-called structural adjustment policies, the less ambitious objective of which is to adapt the industrial structure to the new realities of international competition.

Industrial redeployment therefore has much wider implications, extending beyond national frontiers and directed towards a certain reorganization of the international industrial productive apparatus along the North-South axis. Industrial redeployment therefore links up with the development imperatives of the third world, as defined in international forums, and in particular with the objectives of the Lima Declaration.

The two meanings of redeployment therefore cover distinct realities, the first reflecting, within a developed country, the transfer of employment from one sector towards another, and the second concerned with a better balance in the shares of industrial production of the North and the South. But these distinct realities are connected by many ties of interdependence which may be illustrated by the following questions. To what extent does the development of industrialization in the third world impose certain redeployment requirements on developed economies? What effects will the industrial policies of developed countries have on the industrial development efforts of developing countries? What role is the third world left to play in the context of the industrial specializations emerging in the developed countries? How may the expected changes of industrial structure in the North be used to promote the development of the South?

1. MAJOR ECONOMIC FACTORS

In attempting to reply to these questions, it is necessary to bear in mind the international economic context within which they must be considered. This context is characterized by a number of basic facts.

1.1 Crisis since 1974

Since the beginning of the 1970s, the world economy, and in particular the developed world, have been in a state of crisis.

Although it may be somewhat risky to attempt to date the beginning of this crisis, the collapse on 15 August 1971 of the international monetary system established at Bretton Woods, as a result of the United States decision to devalue the dollar and to end its gold convertibility, may be considered the first alarm signals of the crisis, which is now recognized as such, and which has led to slower growth, persistent inflation and increasing unemployment.

1.2 Emergence of the Political and Economic Power of the Third World

The south, having largely completed its political liberation proclaimed at the Bandung Conference, is increasingly exercising its growing negotiating strength. From non-aligned summits to UNCTAD conferences, from UNIDO conferences to special sessions of the United Nations, international forums have provided the stage for voicing the specific aspirations and goals of the third world, which, following the dramatic decisions of OPEC in 1973, has been invited to the negotiations at the Paris Conference (Conference on International Economic Co-operation).

1.3 Competition of Third-World Industrial Products

"Challenge of the third world", "industrial threat", "cut-throat competition", "dumping", a whole range of expressions have been used to describe the entry of this newcomer into the arena of international trade. These expressions and the psychological shock which they reflect are more significant because of their underlying ideology than because of the potential industrial power represented by the exports of a limited number of products mainly from about a half dozen countries (Brazil, Hong Kong, Mexico, the Republic of Korea and Singapore). But beyond this growth in exports (and the protectionist measures taken by a number of developed countries) the whole industrial potential currently being built up in the countries of the third world is at issue.

1.4 The Increased Role of Transnational Corporations

Exploiting the comparative advantages of various countries, increasing their profits by numerous restrictive trade practices, the transnational corporations reflect the worldwide nature and the concentration of production in the international economy. Controlling internal exchanges (between two branches of a single company) estimated at 25 per cent of world trade, drawing an increasing profit from the cost of technology transfers (85 per cent of revenue from this source in the United States are accounted for by transnational corporations), they build up an economic power which ignores frontiers, and the decisions of which are imposed on States and endured by national economies.

2. INDUSTRIAL REDEPLOYMENT IN THE NORTH

Confronted with the economic crisis, and also, to a certain extent, with the competition of industrial exports from certain countries of the South, the North has developed a strategy involving industrial redeployment policies, in addition to aspects linked to currency, inflation and trade (protectionism).

2.1 Redeployment Strategies

Various strategies have been proposed in favour of industrial redeployment. Some have advocated the reconquest of the domestic market in order to reduce growing imports, even if that were accompanied by a pause in export promotion (see e.g. Bulletin mensuel de la S.P.G.F., February 1977)

Nicholas Kaldor, in the Guardian of 8 March, 1978, proposes that the world's highly industrialized countries should form a club in order to develop to the maximum the international specialization resulting from trade patterns. Within such a club, trade would be organized as follows. Each member country would commit itself to balance its exports of manufactured goods to other countries by imports of equivalent value from the group of other countries considered as a whole. Thus, within such a group "organized freedom" of trade would be ensured which would permit overall internal equilibrium.

The preferred strategy remains however that of industrial specialization.

2.2 Industrial Specialization

Industrial specialization is logically required in a country which, having opted for integration into the world market, will be provided with the framework within which it has the best chance to achieve a high level of growth by free trade.

Firms are thus led to adapt themselves to the constraints of international competition, withdrawing from activities in which world demand is declining and moving into those in which it is growing or which offer certain advantages. In other words, such a country would engage in a policy of industrial specialization enabling it to find its place - the best possible place - in the international division of labour, bringing its comparative advantages into play as far as possible.

However, even for its proponents, this liberal strategy has limits. Thus, one may read in the report of the "study group on the prospects for the trade balance of France during the next ten years" (February 1978):

"A theoretical vision of the conditions of international competition could make specialization appear to be the result of spontaneous trends in the international division of labour.

The spontaneous play of international markets in fact leads to the strengthening of the dominant positions of certain firms and to the accentuation of structural obsolescence observed in others. The strategy of holders of technological wealth or of dominant positions on their markets of origin or on international markets is to preserve these advantages and to prevent access to these markets by firms which for historical reasons are less well placed, but which have comparable potential."

Thus, not only will market forces be relied upon, but the State will also intervene, especially in these strategic sectors.

2.3 Redeployment Policies

In order to export and to reconquer internal markets, companies and the State are therefore led to apply a whole series of medium and long-term measures, such as:

- Rationalization investments which do not create employment but which improve productivity;
- "Cleaning out" the economy in order to eliminate industrial units which are not profitable enough;
- Concentration and mergers especially designed to promote economies of scale;
- Research on specific technological loopholes in the market;
- Moving certain activities to new locations.

Within this range of policies, the industrialized countries attach paramount importance to the capital goods sector and, more generally, to whatever makes possible the exploitation of highly skilled labour and the development of activities involving a high degree of research and development.

3. A NEW INTERNATIONAL DIVISION OF LABOUR

3.1 Role Assigned by Redeployment Policies in the North to Development in the South

To assess the role assigned to developing countries within the framework of the industrial strategies of developed countries, it is instructive to let the reports, studies and documents dealing with redeployment in the North speak for themselves. Thus one may read the following examples:

- In the report of the study group on the prospects for the trade balance of France during the next ten years (February 1978):

  "By manufacturing abroad, in particular in the developing countries, certain unsophisticated components of their products, national companies benefit by the advantages of productive factors in those countries, without however ceasing to retain on French soil the major part of the created value added. Such is the significance of the "advanced training establishments" that are becoming increasingly important in textiles and electronics".

- In an article by Anne-Marie Boyer in the periodical Usine Nouvelle (6 October 1977), entitled "African competition: how to prepare for it":

  "The development of African competition makes the transfer of large-scale production to countries where wages are low absolutely essential. This strategy of specialisation enables the industrialist to continue to manufacture "low-grade" products at competitive prices and to consider more sophisticated production in France; it has the advantage of maintaining employment in France and of increasing the productivity of the company."

- Likewise, in an article in Foreign Policy entitled "Technology exports can hurt us", the author of the article, Jack Baranson, after having defended the point of view that it is in the interest of United States industry to restrict the sale of proprietary technology, writes the following:

"In a changing world economy in which developing countries play an expanding role in producing manufactured goods, the United States will continue to shift to the capital-intensive range of manufacturing, relinquishing more labour-intensive segments of production to low-wage countries."

3.2 A New International Division of Labour

In fact, a new international division of labour is taking shape behind the industrial strategies and policies currently employed. Some of the trends may be noted

3.2.1 Comparative Advantages

The theory of comparative advantages is being strongly challenged. Competition having sharpened among developed countries as a result of the crisis, some of them (the Federal Republic of Germany and Japan) have made remarkable breakthroughs in international trade. The idea that free trade must be favourable to all countries without exception is being questioned. Indeed, the share in world trade increased from 26% to 42% for three countries (Federal Republic of Germany, Italy and Japan) between 1956 and 1976, whereas it fell from 44% to 26% for the United Kingdom and the United States.

Thus one may read the following in the above-mentioned Bulletin mensuel de la B.F.C.E:

"The deterioration in the terms of trade and the relative impoverishment of countries producing raw materials had already shown that the international division of labour did not operate equitably between partners of unequal power. But it is now being discovered that even among developed economies cases of domination arise through international trade. This is because there is no equivalence between the goods exchanged. On the contrary, there is a hierarchy at the summit of which producers of high-performance capital goods enjoy technical domination over their customers."

This trade inequality, which is reflected in the competition among industrialized countries, was ignored however in the above-mentioned passages on the role assigned to the third world by redeployment policies in the North. It is nevertheless recognized that free competition among countries with different economic potentials places the companies of poor countries in an inferior position.

3.3.2 The Role and Practices of Transnational Corporations

Trade therefore remains unequal, but within the framework of the traditional analysis in terms of sectors, factors and trade, the practices of transnational corporations have introduced an element of complexity which slightly obscures the picture.

These multinationals share out markets and distribute production among subsidiaries. They restructure the product range, have the possibility to restrict exports, use fictitious pricing between subsidiaries and collectively conclude agreements on matters ranging from market shares to abusive price-fixing. They are decision-centres which have considerable influence on competition, trade and the economies of the countries in which they are established, and these countries are unable to control the way they exercise their influence.

As a result, the internal organization of the economy of the transnational corporation is superimposed on the economy of the host country and its external relations. Of growing importance on the world economic stage, transnational corporations are increasingly leaving their mark on the international division of labour, of which they represent one of the basic elements.

3.2.3 Technology Retention

It may happen that a transnational corporation or a firm in a developed country refuses to transfer the technology for a specific product to a developing country. Industrial competition has indeed made such situations common.

[illegible] in the United States the idea that the transfer of certain technologies, even if desired by the firms owning them, may be harmful to the United States economy is becoming increasingly widespread. Thus, the above-mentioned article in Foreign Policy comments:

"This dissemination of technology to other economies and the adverse consequences that these transfers may have, have caused considerable concern in government circles."

And the article ends by presenting a number of "guidelines for change":

"The time has clearly come to reconsider national technology policies and their effect on the international operations of United States corporations."

Such a policy change is not, of course, aimed especially at developing countries, but rather concerns any potential partner of a United States firm. However, developing countries are more vulnerable than others to such a policy.

These assumptions, and the shape the international division of labour seems to be taking, are very disturbing.

3.2.4 The New International Division of Labour

Although trade remains unequal, it is still undergoing a fundamental change. In an article published in the magazine Etudes (August-September 1970), Bernard Esambo analysed this situation very clearly.

Under the influence of technical progress and the innovation which it keeps generating, investment is being transformed in two respects: it is becoming increasingly technological and increasingly internationalised.

The system of exchanging manufactured articles for raw materials is being gradually superseded by a system of exchange of technology for energy and manpower. A new international division of labour, different in nature and in scope, is replacing the old.

The word "division" is no longer appropriate. Hierarchy is replacing division. A small number of advanced countries will be responsible for innovation, conception, incentives, in short "intellectual work"; the other countries will apply this and execute the step-by-step operations leading to the final product. The location of firms performing the second type of task is of little importance, since technological control permits control of the productive cycle as a whole, regardless of its degree of fragmentation. That is why the "division of labour" today takes place within industrial branches rather than among them.

The new world hierarchy of labour modifies the movement of income and capital. The differences in labour

qualifications among developing and developed countries lead to increasing differences in the remuneration of labour. Capital, on the other hand, follows the path of exchange against technology and of the export of profits.

The conclusion is therefore clear. "Underdevelopment can no longer be seen as a preliminary stage to development." "Underdevelopment appears rather to be the reverse side of development, within the framework of which it logically belongs."

4. THE DEVELOPMENT OF THE THIRD WORLD

Slowly, it becomes clear which place has been assigned to Third World development in the redeployment strategies of the North. Mediocre technology, a small range of industrial branches, outdated products, sectors with low value added, abandoned in the specialization process of the North - these are some dominant characteristics of the type of industrialization which has been made available to the developing countries.

Redeployment by the North and North-South redeployment are connected: the second derives from the first and may be defined as a residue of opportunities available to the South after they have been disposed of by the North.

This development has its counterpart in several trends in the international economic evolution which become stronger as the outlines of a new international division of labour become clear - a division of labour which is absolutely new in its form, but unchanging in its nature, goals and results: the continued unequal exchange and the domination of the South. And one wonders if the North-South redeployment concept, which is the confirmation and materialization of an upsurge of Third World demands, has not been taken over by the dominant ideology to serve a new kind of unequal exchange.

Thus, the question which arises with regard to the Lima-Objective that the South should realise 25% of world industrial production by the year 2000 is possibly not so much one of the realisation or part-realisation of the objective, as one touching upon its substance: 25% should be realised, certainly, but of what kind of industrial production?

If the South refuses the type of development left over by the redeployment of the North, it will have to "choose" its own type of development, and North-South redeployment will then be a result of several choices and strategies.

The right way therefore seems to be one of autonomous growth, with a reasonably diversified national industry aiming at the quasi-total satisfaction of internal demand. Integration in the world market, however, will give the forces of domination a greater hold and will not lead to real growth.

It is interesting to note, at this point, that an analysis based on UNIDO world sector studies appears to show that Third World countries are more and more concentrating on basic industries and industries needed for integral development, such as those producing investment goods and those with great linkage effects.

To refuse a form of development which would be a residue of Northern redeployment does not mean that developing countries should ignore this redeployment. They must, on the contrary, use all opportunities available in the present situation which can be used for their own development strategy framework. This implies:

- A refusal to accept the illusions of adapted technology and a quick, large scale development of national engineering capacities;
- The processing of raw materials and the development of an industry adapted to the satisfaction of internal demand;
- Looking for opportunities furnished by the redeployment process in developed countries.

such as gaining access to certain technologies, which is facilitated by competition between firms, or the use of underemployed personnel of an enterprise in difficulties as instructors, etc.;

- The strengthening of Third World bargaining power in international organisations;
- Looking for possibilities to regroup regionally and to develop the co-operation between Third World countries, especially in the field of complex products demanding an advanced technology and highly qualified personnel, etc.

By doing this, by really developing, the Third World countries will really contribute to the realisation of new economic relations. Empirical studies have already proved that fears of greater unemployment in the North caused by the development of certain countries in the South are unfounded. On the contrary: the industrialisation of the Third World more and more appears to be a possible peacemaker for economies in crisis.

If one realises that unemployment in OECD-countries has reached a level of 15 million, if one thinks of the underutilised productive capacity in the developed countries, if one measures the productivity blocked in this way and compares it with the acute needs of Third World countries, one realises that a gigantic international co-operation programme, benefiting all, could be set up on this basis, and one realises for which reasons this programme is not even envisaged. But should profit and competition always prevail over the exigencies of equilibrium and the need to satisfy man's primary needs?

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REDEPLOYMENT OF INDUSTRIES FROM DEVELOPED TO DEVELOPING COUNTRIES *

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PART I

CONCEPT AND OPERATIVE PRINCIPLES

INTRODUCTION

The Lima Declaration and Plan of Action, adopted at the Second General Conference of UNIDO held in Lima in March 1975, prescribed a specific pattern and rate of world industrial evolution in the next few development decades. The crux of the declaration was that the developing countries' share in the total world industrial production should be increased to the maximum possible extent and, as far as possible, to at least 25% of the total world industrial output by the year 2000 A.D. At the same time, every endeavour was to be made to ensure that the growth achieved was evenly distributed among the developing countries. This implied that the developing countries had to increase their industrial growth at a rate considerably higher than the 8% recommended in the International Development Strategy for the Second United Nations Development Decade.

According to the industrial survey published by UNIDO for the forthcoming Third General Conference, the developing countries accounted for about 9% of the world manufacturing output in 1977. On current projections, and assuming that the future growth of world manufacturing value added continues at the rates calculated for the period 1960-1975, the developing countries would achieve a share of only 13.9% of world manufacturing output by the year 2000. Even this estimation is subject to reasonable doubt since it does not take into account recent developments affecting industrial output such as the energy crisis, the world wide inflation and the consequent curbing of consumer demand in the markets of the developed world. Obviously, if the Lima target is to have any meaningful significance, positive steps will have to be taken to alter the structure of production both in the developed as well as the developing countries in a manner calculated to give additional weightage to the latter. Redeployment of industry is an obvious mechanism by which such structural shift can be brought about. It is necessary to devise a new set of policies designed to encourage structural shift in world industrial production aimed not only at a fuller and better utilisation of natural and human resources but also to substantially alter the distribution of industrial assets among the countries of the world.

This paper seeks to trace, briefly, the concept of redeployment as it emerged in the Lima Conference, and subsequent international fora, in an attempt to underlin its salient features and operational aspects. It then analyses the general principles which should determine the physical shift of industries to developing countries while safeguarding any possible damage or injury to existing industrial units. It also describes India's policies in this field. It is hoped that such an analysis will be of assistance to developing countries in assessing their own policies and priorities in the light of international experience and in helping to establish suitable institutions and measures for fostering and accelerating redeployment.

CONCEPT OF REDEPLOYMENT

Paragraph 59(c) of the Lima Declaration and Plan of Action outlines the general nature of the concept of redeployment. The developed countries are asked to --

> "Facilitate development of new and strengthen existing policies, taking into account their economic structure and economic, social and security objectives, which would encourage their industries which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy, thus leading to structural adjustments within the developed countries, and redeployment of the productive capacities of such industries to developing countries and promotion of a higher degree of utilization of natural resources and people in the latter"

Paragraph 61 (d) of the Lima Declaration and Plan of Action, while speaking of cooperation between developing and developed countries, stated that it should take the following forms:

> "Urgent consultations, taking into account appropriate information with respect to the development of demand and supply, availability of production factors and their costs, the possibilities and conditions of investment and the availability of appropriate equipment and technologies, with a view to facilitating, within a dynamic context and in accord with authorities available to Governments, the redeployment of certain productive capacities existing in developed countries and the creation of new industrial facilities in developing countries. These consultations should in particular relate to industries processing raw materials exported by developing countries or which consume vast quantities of energy, and should result in concrete proposals for inclusion in the development programmes of participating developing countries"

The concept of redeployment received the approval of the United Nations General Assembly and two Assembly resolutions (31/163 and 3362 (S-VII) urged the developed countries to facilitate the development of new policies, and strengthen existing policies, which would encourage the redeployment of their industries to developing countries. This idea received its clearest expression in the following recommendations made by UNCTAD at its IVth session held in May, 1976.

> "Developed countries should facilitate the development of new policies and strengthen existing policies that would encourage domestic factors of production to move progressively from the lines of production which are less competitive internationally, especially where the long-term comparative advantage lies in favour of developing countries, thus providing, inter alia, larger export possibilities for the developing countries and contributing to the attainment of their development objectives. The development and strengthening of such policies would encourage the redeployment of the industries of the developed countries which are less competitive internationally to developing countries, thus leading to structural adjustments in the former countries and a higher degree of utilization of natural and human resources in the latter. Such policies may take into account the economic structure and the economic, social and security objectives of the developed countries concerned and the need for such industries to move into more viable lines of production or into other sectors of the economy".

UNCTAD V, meeting in May-June 1979, re-endorsed the recommendations of UNCTAD IV relating to redeployment.

In terms of definition, the UNIDO Secretariat suggested in its note to the Industrial Development Board (ID/B199) that the following definition of the term redeployment should be applied:

> "In order to accommodate the various forms, conditions and decision-making processes for industrial resource transfer to developing countries, it may be more appropriate to see redeployment as a form of international industrial co-operation for resource transfers aimed at establishing productive capacities in the developing countries with a view to increasing these countries' share in total world industrial production on the basis of each country's factor and skill endowment, development objectives and other socio-economic considerations. Given this broad framework for redeployment, it may encompass not only private enterprise co-operation but also intergovernmental

arrangements and it may assist the international community in considering the various specific forms of co-operation on their own merits against the more general objectives".

This definition provides a sound working base for understanding the concept of redeployment. Redeployment implies the physical transfer of productive assets in the industrial sector from the developed to the developing countries in order to strengthen the foundations for economic growth in the latter. This is the most obvious, the most accepted form of redeployment. There are, however, at least 3 other forms of international economic interaction through which redeployment can be affected:

The first is where investment decisions for setting up future capacity in the developed countries are deferred and instead the investments are redirected to developing countries. Examples of such types of redeployment could be where transnational firms divert their future expansion programmes to existing or projected units in developing countries.

The second type of redeployment would be in sectors where commodity production takes place in a number of stages with the developing countries' production system being linked to the primary or semi-finished low value output and the developed countries finishing the product and marketing it with tremendously increased value added. Redeployment would, in this context, imply a shift in the system of production with the developing countries taking an increasing share in the production of the higher value finished products.

The third form of redeployment is, in a way, indirect in its applications and impact. This concerns situations where products from the developing countries have difficulty in obtaining free and fair access into the markets of the industrialised economies. Were the marketing system to be streamlined, the production base in the developing countries would receive not only greater impetus for increased output, but also higher returns in terms of value and profitability facilitating the transfer of industrial capacity from developed countries, again on the basis of comparative advantage.

It will be seen, therefore, that redeployment of industries from the developed to the developing countries could have various connotations apart from just the physical transfer of assets in favour of developing countries. Basic to any definition of redeployment would be systems, procedures or mechanisms by which the structure of industrial production shifts in favour of developing economies.

Correspondingly, any policies, decisions or organisations which facilitate or bring about this transformation could justifiably be termed favourable to redeployment. Seen in this light, redeployment constitutes the essence of the changing mode of production in the world's industrial system.

It would be necessary to mention one other aspect of redeployment which has an important bearing on the operational practicalities of the concept. Redeployment can never be a purely government to government transaction. In almost all the developed countries, the government is not directly the owner of the means of production. Similarly, in developing countries, in spite of the extension of the public sector as a working concept in many economies, the government does not directly own all industrial ventures. In both the developed and the developing countries, industrial activity is conducted by private or government backed corporations and firms who control the actual means of production. At the same time, however, the governments concerned prescribe and implement policies which can facilitate structural shifts in industrial production. There are thus four parties involved in the process of redeployment, each having an important role to play in the actual translation of the concept:

(a) the entrepreneur in the developed country;
(b) the government of the developed country;
(c) the entrepreneur in the developing country; and
(d) the government of the developing country.

It is important to accept these constituents in the redeploy ent mechanism in order to understand the factors which could hinder or accelerate the process.

GENERAL PRINCIPLES FOR REDEPLOYMENT

The basic guiding principle for any major redeployment effort must rest on a clear recognition of the ultimate economic rationality inherent in the process. It is in the interest of the economic welfare of both the developed and the developing countries that the industrial structure be reorganised along the lines of the most efficient production system possible. Comparative advantage in production techniques would thus become the acid test for determining the global relocation of industries. During the past few decades, the cost structures and labour market conditions in almost all developed countries have escalated to a point where the marginal unit product cost greatly reduces or nullifies its comparative advantage. High labour costs, rising raw material and finishing charges, newly i osed environmental protection charges and - last but not the least - the spiralling energy bill, have all combined to

make unit production uneconomical in many commodity sectors in the developed world. While this is particularly true of a wide variety of lab our intensive industries, the argument also holds for some of the less capital intensive industries and also for technologically sophisticated branches and products. In such a situation, the developing countries, with their offer of an abundant supply of cheap and well disciplined labour, greater access to raw materials, lower energy and anti-pollution costs, lower building and ground costs certainly possess clear advantages for the setting up of more efficient production units.

As a recent report emanating from UNIDO correctly states:[1]

> "Barring the introduction of protectionist policies or other measures by the developed countries, which would change this newly emerging attractiveness of industrial sites in the developing countries, the international division of labour will most probably continue to develop along the lines established during the past decade: continued growth of labour intensive and raw material intensive industry in the developing countries; increasing redeployment of capital intensive production in the late stages of the produce cycle to the developing countries; maintenance of capital intensive sectors in the early stages of the product cycle in the developed countries; and maintenance and expansion of human capital intensive industry - industry requiring a sophisticated service sector, R&D facilities, and a highly qualified and flexible labour force - in the developed countries".

Economic rationality can at best point the way; what is required to implement the free flow of industry on the comparative advantage principle is a set of measures both in the developed and the developing countries which remove impediments in the way of such transfers. In this context, the UNIDO Study referred to has made certain tentative suggestions[2]. Action along these lines is strongly for the setting up of agencies for conducting continuous analytical research and forecasting of structural changes in both the developing and the developed countries. Such agencies could, through a system of international feedback and exchange,

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1/ Industrialisation For the Year 2000: New Dimensions. Joint Study on International Industrial Co-operation, UNIDO May 1979. pp. 37-38.

2/ Op cit., pp. 45-46.

establish the groundwork upon which substantial redeployment activity could take place. What is even more pertinent, such studies could bring into focus the beneficial aspects of redeployment for the international economy as a whole and thereby help to evoke public awareness of the necessity for international resource transfer. Government policies are, after all, a significant reflection of public needs and a free interchange of world resources must base itself on the willing and active cooperation of all parties concerned.

A free flow of world production forces should not, of course, be taken to imply a sanction for unrestricted exploitation. Redeployment should not be looked upon as a means for the extraction of surplus value from developing countries through outright exploitation of natural resources or cheap labour. Neither should it be construed as an escape for the environmental and pollution controls in the developed countries in order to transfer such pollution to emerging economies. All too often in the past, redeployment was treated as a shift of outmoded technologies to developing countries, and capacities were created having neither the resilience nor the competitiveness to face superior techniques of western production. Such policies only succeed in creating conditions which prove counterproductive in the long run. Mutual suspicion and acrimony arise and the whole basis for a new International Economic Order comes in jeopardy. Instead, redeployment should be integrated into the development plans and industrial policies of the developing countries. The redeployment strategy should effectively provide for maximum utilization of domestic resources ensuring, on the one hand, a reduction of dependence from the economic strings of the developed countries and, on the other, the creation of new opportunities and employment vistas for the industrial workers of the developing world. Only through continuous dialogue and total cooperation could such an atmosphere be effectively brought about.

It would be necessary, in this context, to highlight the problems inherent in redeployment as far as the least developed countries are concerned. Obviously, in their case, the comparative advantage principle has little meaning since most of the LDC's have only the most rudimentary development of their natural resources. Special measures will, therefore, be necessary and specific institutions created for catalysing the industrial growth in these countries. Here both the developed as well as the developing countries can join hands to play an effective role and devise policies which could establish production capabilities in the LDCs. Country specific programmes need to be worked out and redeployment implemented in keeping with the economic rationale emerging in each case.

Finally, a word about anticipatory adjustment measures which are necessary in developed countries for easing the process of redeployment. A number of countries have enacted measures for adjustment assistance and the UNCTAD Secretariat, in its document TD/B/C.2/171 of May 1977, has highlighted these programmes in certain countries. It is unfortunate that, in most cases, adjustment assistance has meant the application of trade measures and subsidies, and other like activities, designed to meet problems or difficulties arising out of particular economic and social situations. The guiding consideration is prevention of domestic injury and the preservation of economic systems which are outmoded and inefficient at best and singularly anachronistic at worst. In none of these countries have adjustment assistance measures specifically been adopted to facilitate trade liberalisation or encourage the redeployment to developing countries of the industries in developed countries which are less competitive internationally, thus bringing about structural adjustments in the latter countries and a higher degree of utilisation of national and human resources in the former. Not unnaturally, therefore, such inversion of priorities succeeds in creating conditions which are but a step removed from protectionism.

It must be unequivocally recognized that anticipatory (as well as post facto) adjustment assistance has a positive and incremental role to play in bringing about and expediting the redeployment of industry. Measures taken should not just take internal setbacks into account but the larger international social and opportunity costs. Clearly the long run advantages of a stable world economic order should be the guiding concern rather than just solving imagined or actual domestic injury.

PART II

INDIA AND REDEPLOYMENT

The Indian approach towards the redeployment of industry forms part and parcel of the country's long term policies for industrial growth. India recognises that the transfer of industrial capacity from the developed to the developing countries is an essential aspect of the Lima Declaration which aims at raising the developing countries' share in world manufacturing to 25% by the year 2000. Industrial policies and programmes in India incorporate, therefore, provisions which would facilitate resources transfers from the developed world to India as well as to other developing countries with Indian assistance. In respect of redeployment, in fact, the Indian policies can broadly be divided into 3 categories:

(a) measures designed to attract the migration of resources and assets from developed countries to India;

(b) policies and programmes of the Government of India to promote the setting up of productive capabilities through direct bilateral channels in other developing countries; and

(c) programmes of multi-lateral technical collaboration among developing countries with Indian participation.

When India attained Independence in 1947, its economy bore the imprint of the colonial domination which it had had to sustain for the past two and a half centuries. The industrial infrastructure was rudimentary to say the least, technical expertise was at an abysmally low level, productive assets few and far between and capital resources almost non-existent. India's industrial growth had to begin virtually from scratch and the problems and tasks it faced seemed almost Herculean. Yet within a decade or two India was able to achieve a sustained level of industrial growth based on a framework of policy designed towards the eradication of poverty and the attainment of economic self-reliance. The essence of the Indian experience has been that there can be no short cuts to growth except through continuous self-dependence and prolonged hard work. Many sacrifices have has to be made but without these sacrifices no benefits of a lasting nature would have been possible. India has had to tap its own resources, develop its own genius and train its own factors in order to open out to its people new avenues for a richer and more varied life.

And yet India's concept of self-reliance has not meant the exclusion of foreign forces or influences which are in tune with the broad trends of national development. A significant case in point was the attitude of the Government towards transnational and foreign investments already in India when it achieved its independence. The Indian policy was based on the principle that approved foreign investment and foreign firms would be treated on par with domestic units on all matters such as development facilities, taxation, investment mobility, etc. In short, all foreign investment in India was treated as part and parcel of the Indian industrial structure without any discrimination or particularised treatment. For the future the Government's policy towards foreign investment and transnational firms has been regularised in the Foreign Exchange Regulation Act, 1973. The Act provides for general or special permission to be granted to all foreign companies to conduct new or existing business in India of a trading, commercial or industrial nature. It also prescribes the conditions under which foreign equity can be held in firms undertaking production or other business in India and stipulated different levels of equity holding for different

types of production activities. Thus an export oriented production unit is permitted larger foreign equity than is production necessitating sophisticated technology not available in the country. The Foreign Exchange Regulation Act imposes a uniform set of guidelines applicable to foreign investment in India and removes any doubt that there might be regarding evenhanded treatment for foreign investors.

The Government also takes positive steps to permit the inflow of modern technology in the larger interest of developing, within the country itself, a sound base for technological self-reliance. The necessity for the continued inflow of technology in sophisticated and high priority areas where Indian skill and technology are not adequately developed is recognised. However, there are certain broad guidelines issued by the Government from time to time and these guidelines have a universal applicability. Care is taken to see that the guidelines fit in with the national priorities as well as with the industrial needs of the nation and provide, at the same time, sufficient incentive for the foreign investor/collaborator to come to India. Foreign investment and acquisition of technology necessary for the country's industrial development are permitted on terms determined by the Government on a case by case basis. In such areas the policy preference is for outright purchase of the best available technology and then adapting such technology to the country's needs. Indian firms with foreign collaboration are required, in appropriate cases, to set up adequate research and development facilities so that import of technology is properly assimilated. The fact that India has not defaulted on a single foreign contract or rescinded to any contractual obligation has certainly been a major factor in attracting foreign capital and investments to the country.

Apart from the general provisions for foreign investment and foreign collaboration, India has recently taken a major step for the redeployment of industrial capacity from developed economies by encouraging the import of second hand machinery, plants and equipment for certain industries identified for the purpose. These include fertilizers; newsprint and paper; basic drugs; power generation, transmission and distribution; cement and cement products; petroleum exploration and production, etc. and are looked upon as industries of national priority.

For the redeployment of industry to developing countries through direct Indian participation or assistance, India has evolved a sound working policy. Such redeployment can either be Government backed or through private venture by Indian entrepreneurs. The first category covers instances where industrial projects are set up by India in a number of developing countries through direct financial and technical

participation. Excellent examples are to be found in some of the bilateral industrial ventures promoted by India in Bhutan, Nepal, Afghanistan, Indonesia, Tanzania, Thailand and Mauritius and other countries. Apart from these projects a large number of joint ventures have been set up in many developing countries by Indian entrepreneurs in collaboration with local associates.

Indian entrepreneurs have been venturing across the national boundaries in joint ventures only very recently even though private foreign investment and technology have been moving into various countries for quite some time. Since subsidiaries of majority companies have not been found appropriate to further the objectives of economic development, most developing countries have been increasingly favouring alternative arrangements such as joint ventures. Setting up joint ventures is consistent with the objective of fostering mutual cooperation between the less developed countries in stepping up the process of economic development. From the national point of view, the concept of joint ventures, being a natural evolution in international trade and economic relationships, has been accepted as one of the export promotion strategies. Besides, joint ventures yield normal benefits in the form of foreign exchange earnings, provide markets for capital goods and help retain and expand their established export markets. In accordance with these objectives, the Government has been encouraging Indian entrepreneurs in a selective way to set up joint ventures abroad.

The recent experience in India has shown that the performance of Indian joint ventures is encouraging in terms of meeting the objectives of the policy for joint ventures, i.e. (i) to extend development cooperation to the developing countries and (ii) to create opportunities for exports of India's capital goods, technology and know-how. Indian joint ventures are essentially located in the developing countries, contributing to their process of import substitution and industrialisation and in the process increasing export of technology intensive products from India.

Finally, the concept of redeployment would include Indian participation in multilateral technical cooperation among developing countries. India is keen to share its knowledge and expertise with other developing countries within the frame work of the Lima Declaration and Plan of Action. It has acquired the world's third largest technical manpower resources and is in a position to share this asset on a global basis. In particular, India has been attempting to promote regional technical cooperation as well as cooperation with countries from the Afro-Asian and the Latin American Groups. Specific sectors have been identified where multilateral technical collaboration can become a meaningful reality. These include design, manufacture and supply and

and installation of machinery and equipment for turn key engineering projects; supply of complete plant and equipment for industries like cotton and woollen textiles; cement and sugar mills; structural fabrication; power transmission lines; blast furnaces, etc. Multilateral technical collaboration would also include training and sharing of training facilities as well as a free flow of research and development knowledge. All such exchanges help to update industrial know-how and capability and helps in the creation of the infrastructure and environment facilitating deployment of industrial capacity.

CONCLUSION

It is obvious that the concept of redeployment is of relatively recent origin and has come in focus specially after the Lima Conference. It also seems that there are certain misconceptions as to the nature of its operative implications. If it is viewed in isolation from the broader perspectives of the development of international industry it can give rise to irrational fears of disruption in one sector of the world economy to benefit another. This, however, would be a grave distortion of the underlying spirit of redeployment. A universal economic uplift, based on the comparative advantage principle to ensure efficient production, is the basic goal of redeployment. Scarce global resources have to be worked to optimal efficiency and this means the creation of production capacity in places where the factor mix is most favourable. Through effective cooperation and understanding, redeployment can be made a powerful instrument in changing the international growth environment. What is of utmost necessity is a continuing dialogue between the different parties involved on the types of policies and programmes best suited to bring about redeployment. Long term perspectives rather than ad hoc measures are called for. India has had an opportunity of framing a set of policy guidelines relating to redeployment within the overall ambit of its industrialisation plans. This paper made an attempt to give an outline of those policies against a backdrop of the definition and operative principles of redeployment considered relevant for developing countries. It is hoped that such exercises will help clarify many aspects of redeployment and thereby usher in an area where resource transfers become an intrinsic attribute of world economic cooperation.